

**Sheet (2)**

**Section (A): MCQ**

1. As the price of airline tickets increases, the:
  - a. demand for airlines tickets increases.
  - b. supply of airline tickets decreases.
  - c. quantity of tickets demanded decreases.
  - d. quantity of tickets supplied decreases.
2. Suppose that the demand curve for good X shifts to the left. One reasonable explanation for this shift would be:
  - a. the supply of X decreased for some reason.
  - b. the price of X has increased, so people have decided to buy less of it than they did before.
  - c. consumer tastes have shifted in favor of this commodity, and they want to buy more of it than they did before at any given price
  - d. the price of X has fallen, so people have decided to buy more of it than they did before
  - e. none of these events
3. If IBM and Compaq computer are substitutes, a decrease in the price of IBM PCs will cause:
  - a. a decrease in the demand for Compaq computers.
  - b. an increase in the demand for IBM computers.
  - c. an increase in the supply of IBM computers.
  - d. an increase in the supply of Compaq computers.
4. An increase in the cost of materials need to produce snow skis causes the following change in the snow ski market:
  - a. the demand curve shifts to the right.
  - b. the supply curve shifts to the left.
  - c. both the demand and supply curves shift to the left.
  - d. neither curve shifts.
5. Consider the producer who makes leather shoes and leather purses. An increase in the price of leather shoes would cause:
  - a. a decrease in the supply of leather purses.
  - b. movement along the supply curve for purses.
  - c. a shift in the demand curve for leather shoes.
  - d. the supply curve for leather shoes and the supply.
6. Beef supplies are sharply reduced because of drought in the beef-raising states, and consumer turn to pork as a substitute for beef because they believe there are health benefits. In the beef market, there two phenomena would be described in terms of supply and demand as:
  - a. a leftward shift in the demand curve.
  - b. a leftward shift in the supply curve.

- c. a rightward shift in the demand curve.
  - d. a rightward shift in the supply curve
  - e. both the supply curve and the demand curve will shift to the left.
7. Let the initial price of a good be \$5. If buyers wish to purchase 4000 units per week at that price while sellers wish to sell 5000 units per week, then:
- a. price will tend to increase in the future.
  - b. Firm output will tend to increase in the future.
  - c. price and output will tend to remain the same in the future.
  - d. price will tend to decrease in the future.
  - e. Something is wrong – this could not happen.
8. The demand for snowboards has increased recently as more people have taken the sport. This will cause the supply curve for snowboards to:
- a. shift to the left
  - b. shift to the right
  - c. remain the same
  - d. decrease next year
9. which of the following will not help determine the position of the supply curve?
- a. Technology
  - b. resource costs
  - c. Consumer income
  - d. Government taxes

**Section (B): True or False questions:**

- 1. The substitution effect tells us that people will buy more as prices fall because their purchasing power is increasing.
- 2. The demand for cars has increased in the past 50 years because the price has fallen.
- 3. An improvement in technology will cause the supply curve to shift to the right.
- 4. If the price of Pepsi goes up, it is likely that the market supply curve for Coke will shift to the right.
- 5. If the wages of autoworkers increase, the supply of automobiles will shift to the left.
- 6. Markets for goods are defined by the behavior of suppliers who determine prices and output levels.
- 7. If the actual price in a market is above the equilibrium price, we would expect to see downward pressure on output and price.

**Section (c): Essay questions**

Determine whether each of the following factors will shift the demand or supply curve. In addition show the impact on equilibrium price and output using graphs.

- a. Population increases
- b. Input prices go up
- c. Tariffs are removed
- d. Average income falls
- e. Technology improves
- f. product becomes more desirable/popular